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C O N F I D E N T I A L SECTION 01 OF 02 YEREVAN 001797

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DEPARTMENT FOR EUR/ACE, EUR/CACEN, INR

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SUBJECT: KERKORIAN'S LINCY FOUNDATION ROLLS OUT LATEST (60 MILLION) PROGRAM

Classified By: DCM A.F.Godfrey for reasons 1.4 (b,d).

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SUMMARY  
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1. (C) Representatives of Amcit philanthropist and corporate mogul Kirk Kerkorian's Lincy Foundation told us September 25 that their latest set of programs in Armenia would begin no later than mid-October. The USD 60 million, two-year package of projects will include renovation of a major highway along the Armenia-Turkey border in the north of the country, physical upgrades for twenty of the country's most dilapidated schools and reconstruction of Yerevan's second tier ring roads. As with earlier Lincy projects, only President Robert Kocharian and a core group of close advisors -- minus the MFA -- were involved in the planning phase of this latest program. According to one Lincy representative, Kocharian initially wanted all of the USD 60 million budget to go to projects in Yerevan but eventually relented when one advisor counseled him that "ignoring the poor rural areas would look bad" in light of USG plans to invest heavily in the rural sector through the Millennium Challenge Account and other programs. End Summary.

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60 MILLION FOR HIGHWAYS, SCHOOLS AND STREETS  
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2. (C) Representatives of Amcit philanthropist and corporate mogul Kirk Kerkorian's Lincy Foundation told us September 25 that their latest set of programs in Armenia would begin no later than mid-October. A team of Lincy specialists will arrive in Armenia October 15 to finalize grant documents, ensure full political buy-in for the project, and begin issuing the first tranche of funds. This much-anticipated second round of projects comes two years after the Lincy Foundation donated USD 110 million in a nationwide construction program that refurbished the country's major highways and cultural institutions (theaters and monuments) in downtown Yerevan.

3. (C) The latest USD 60 million package of projects will include renovation of a major highway along the Armenia-Turkey border in the north of the country, physical upgrades for 19-20 of the country's most dilapidated schools and reconstruction of Yerevan's second tier ring roads. Each of the project's three components boasts a USD 20 million budget. One of the most ambitious projects is a new access road that will connect downtown Yerevan with the Komitas district in the city's northwest quadrant. (Note: While there is clearly a need to reduce traffic congestion in this part of the city, it is still unclear to us how this road expansion project will be implemented. There have not been detailed feasibility studies of which Post is aware and Yerevan's Mayor has been relatively quiet about the project. End Note.) Press reports have criticized this element of the project, claiming it will improve road access to the luxury homes of wealthy GOAM ministers but will do little to improve the lives of average citizens. Lincy has not reacted publicly to these accusations to date.

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CORE GROUP, MINUS THE MFA, CALLS THE SHOTS  
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4. (C) As during the first set of Lincy projects, a small group close to President Kocharian appears to be making the important decisions regarding this latest program. Lincy Foundation representatives told us that Kocharian, Presidential Advisor Armen Gevorkyan, and Cabinet Chief of Staff Manuk Topuzian were the sole decision-makers and continue to manage Lincy-related information tightly within the GOAM. One important difference this time around is that Minister of Foreign Affairs Vartan Oskanian has reportedly been excluded from the decision-making process after a 2004 tussle in the press with Lincy Co-Chairman Harut Sassounian (Amcit) in which the two battled over who should take credit for the success of the first installment of Lincy projects. (Note: Oskanian has been publicly supportive of Lincy's

latest plans and has not hinted to Post that there is any tension between the MFA and Lincy. Economic Development and Diaspora Relations Department contacts in the MFA, however, are mostly unaware of the details of this latest project, which seems to confirm the rumor about the MFA's exclusion. End Note.)

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SENSITIVITIES MOVE LINCY TOWARD RURAL PROJECTS  
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15. (C) According to one Lincy representative, Kocharian initially wanted all of the current USD 60 million budget to go to projects in Yerevan but relented when one advisor (we assume Gevorgyan) counseled him that "ignoring the poor rural areas would look bad" in light of USG plans to invest heavily in the rural sector through the Millennium Challenge Account and other ongoing programs. (Comment: USG efforts in rural Armenia have also influenced the MFA to focus its 2006 Diaspora Conference -- the largest gathering of Diasporans worldwide -- on rural poverty reduction. MFA Senior Advisor Salpi Ghazarian, an Amcit, consulted informally with the Embassy before announcing the theme of the conference. She said the MFA hoped a focus on rural poverty would create synergies with the USG's USDA and MCA programming. End Comment.) In addition, local Lincy office chief Armen Gyulkhasian told us earlier this year that there was a perception among some in Armenia that Lincy's first tranche of Yerevan projects was designed to create an "illusion of prosperity" and bolster the Kocharian administration. He hinted that Lincy chose the current slate of projects in an effort to counter this perception.

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COMMENT: READY OR NOT, HERE COME THE DOLLARS  
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16. (C) The Lincy Foundation's decision to move quickly on the next tranche of projects will further strengthen Armenia's 2005 economic indicators. As with the previous Lincy program, the injection of funds into the construction sector will create jobs, keep a number of related businesses liquid and will certainly not hurt Yerevan's hot real estate market. Political ramifications, while harder to quantify, are no less likely. Kocharian can tout his ongoing relationship with Kerkorian and the Lincy Foundation as evidence of his friendly relations with the Armenian Diaspora community beyond Russia. The Lincy projects will come to a close as Kocharian ends his second term in 2008 and will likely be part of the "legacy" he and his advisors will choose to publicize -- and/or use as a convenient campaign tool for what we expect to be a hand-picked successor.  
EVANS